USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - Public distribution

Date: 5/13/2008

GAIN Report Number: MX8031

Mexico

Cotton and Products

Cotton Annual Report

2008

Approved by:
Suzanne Heinen
U.S. Embassy

Prepared by:
Benjamin Juarez

Report Highlights: Total Mexican cotton production for marketing year (MY) 2008/09 (Aug-Jul) is forecast to rebound 9.5 percent to approximately 680,000 bales as a result of increased planted area. However, cotton consumption for MY 2008/09 is forecast to decrease to 1.925 million bales, due to a possible slowdown in the U.S. economy and the consequent unfavorable outlook for the Mexican economy. Consequently, cotton fiber imports are projected at 1.4 million bales for MY 2008/09, down from the MY 2007/08 estimate. The textile industry continues to be a main user of cotton in Mexico, but in calendar year (CY) 2007, this industry experienced more job losses and continued pressure from imports, particularly from China. This negative trend is expected to continue in CY 2008.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico City [MX1]
[MX]

Table of Contents

SECTION I. SITUATION AND OUTLOOK

The GOM and several private analysts have decreased their economic forecasts for Mexico due to the effect of a possible recession in the U.S. in 2008. Growth is forecast at 2.9 percent in 2008 compared to 3.3 percent in 2007 and 4.8 percent in 2006. Inflation is expected to be held around four percent, according to Mexico's central bank, despite higher food prices in the first half of 2008. This relatively weak economic growth will lead to lower levels of consumer purchasing power, and thus a decline in the growth of apparel spending.

For MY 2008/09 cotton production is forecast at 680,000 bales, 9.5 percent higher over last year's revised estimated production. This increase of 59,000 bales is due to an expansion of harvested area in response to higher international cotton prices and assuming normal or average weather conditions. According to the Confederation of Mexican Cotton Associations (CMCA), many growers considered planting other high-priced commodities (corn, wheat, and other regional crops) for 2008. However, despite the attraction of strong wheat and corn prices, the preliminary cotton planting intentions show an increase in planted area for MY 2008/09 due to a significant increase in inputs costs, particularly fuel and fertilizers, associated with other crops. Plus, most of the main cotton producing areas in Mexico are best-equipped to grow only cotton. Likewise, the CMCA estimates that approximately 70,000 hectares of cotton will be planted with genetically modified seed varieties in MY 2008/09, an increase of approximately 17 percent over last year.

Due to revised official data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA), and preliminary information from private sources, post estimates for cotton production, and planted and harvested areas for MY 2007/08 were adjusted downward.

Domestic demand for cotton is forecast at 1.925 million bales in MY 2008/09, down approximately five percent from MY 2007/08. Consumer demand for textile products is declining in MY 2007/08 and will likely continue falling in MY 2008/09 as a result of the slowdown in the U.S. economy. According to private industry sources, the Mexican cotton industry is vulnerable to the effects of a U.S. economic slowdown as it would reduce Mexico's textile exports to the United States, which is the main importer of Mexican textile cotton.

The U.S. is expected to maintain its dominant market share of cotton imports, as practically all cotton imports are sourced from the United States. Meanwhile, domestically Mexico's textile industry continues to face strong competition from products produced in Asia (mainly China). At the same time, demand for apparel and textile products will likely decrease next year as Mexico's apparel and textile exports continue to lose market share in the United States. For MY 2007/08, the 1.5 million bales of import will supply nearly 75 percent of Mexico's needs in the textile industry. However, for the coming year, lower mill use should reduce their imports to 1.4 million bales.

The cotton import estimate for MY 2006/07 has been revised downward according to official information from the Secretariat of Economy (SE). MY 2006/07 and My 2007/08 export estimates have also been revised downward based on SE's official data for the first year and preliminary information from industry sources for the second year. The export estimate for MY 2008/09 is forecast at 200,000 bales.

With imports declining in MY 2008/09, ending stocks are projected to decline to 888,000 bales, tightening the stocks-to-use ratio to 42.28 percent, compared to a 42.40 percent stocks-to-use ratio in MY 2007/08.

SECTION II. STATISTICAL TABLES

PS&D Table

PSD Table									
Country	Mexico								
Commodity	Cotton			(HECTARES) 1000 480 lb. Bales(PERCENT)(KG/HA)					
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	08/2006			08/2007			08/2008		
Area Planted	0	116	116	0	127	113	0	0	120
Area Harvested	115	115	115	105	124	110	0	0	115
Beginning Stocks	1324	1394	1324	1027	1247	1037			933
Production	650	648	650	650	683	621	0	0	680
Imports	1353	1500	1381	1500	1500	1500	0	0	1400
MY Imports from U.S.	0	1500	1381	0	1500	15000	0	0	1400
Total Supply	3327	3542	**3355**	3177	3430	**3158**			**3013**
Exports	175	220	193	175	220	200	0	0	200
Use	2100	2050	2100	2000	2000	2000	0	0	1900
Loss	25	25	25	25	25	25	0	0	25
Total Dom. Cons.	2125	2075	2125	2025	2025	2025	0	0	1925
Ending Stocks	1027	1247	1037	977	1185	933	0	0	888
Total Distribution	3327	3542	**3355**	3177	3430	**3158**	0	0	**3013**
Stock to Use %	45.14286	54.93392	45.2246	44.91954	53.37838	42.40909	0	0	42.28571
Yield (KG/HA)	1231	1227	1231	1348	1199	1229	0	0	1287

Trade Matrices

Cotton	H.T.S. 52010002, 52010003, 52010099		UNITS: MT
EXPORTS TO:	MY 2005/2006	MY 2006/2007	MY 2007/2008①
U.S.	5,689	446	64
CHINA	33,187	16,770	17,962
JAPAN	1,475	1,227	696
GUATEMALA	0	0	0
VIETNAM	7,188	4,872	88
TAIWAN	2,333	1,003	200
INDONESIA	3,416	6,407	0
OTHERS NOT LISTED	6,678	11,279	5,550
GRAND TOTAL	59,966	42,004	24,560

***SOURCE**: World Trade Atlas, Mexico Edition, December 2007*
MY begin August ends July. ①Data as of December 2007

Cotton	H.T.S. 52010002, 52010003, 52010099		UNITS: MT
IMPORTS FROM:	MY 2005/2006	MY 2006/2007	MY 2007/2008①
U.S.	385,392	300,311	149,171
EGYPT	426	418	200
MALI	0	0	0
OTHERS NOT LISTED	0	0	0
GRAND TOTAL	385,818	300,729	149,371

***SOURCE**: World Trade Atlas, Mexico Edition, December 2007*
MY begin August ends July. ①Data as of December 2007

Cotton Yarn	H.T.S. 5205, 5206, 5207	UNITS: MT
EXPORTS TO:	CY 2006	CY 2007
UNITED STATES	11,897	8,232
CANADA	447	306
GUATEMALA	686	628
COLOMBIA	2,810	9,066
OTHER NOT LISTED	1,464	2,589
GRAND TOTAL	17,304	20,821

***SOURCE**: World Trade Atlas, Mexico Edition, December 2007*

Cotton Yarn	**H.T.S. 5205, 5206, 5207**	**UNITS: MT**
IMPORTS FROM:	CY 2006	CY 2007
United States	36,910	20,391
EL SALVADOR	943	892
SPAIN	1,483	1,042
SOUTH KOREA	1,919	1,792
OTHER NOT LISTED	2,301	1,358
GRAND TOTAL	43,556	25,475

SOURCE*: World Trade Atlas, Mexico Edition, December 2007*

Woven Cotton Fabrics	**H.T.S. 5208, 5209, 5210, 5211, 5212**	**UNITS: M^2**
EXPORTS TO:	CY 2006	CY 2007
United States	17,584,541	17,449,843
COLOMBIA	14,092,355	22,230,820
CUBA	131,282	27,058
HONG KONG	38,827	370,993
OTHER NOT LISTED	7,365,455	28,576,423
GRAND TOTAL	39,212,460	68,655,137

SOURCE*: World Trade Atlas, Mexico Edition, December 2007*

Woven Cotton Fabrics	**H.T.S. 5208, 5209, 5210, 5211, 5212**	**UNITS: M^2**
IMPORTS FROM:	CY 2006	CY 2007
United States	388,538,880	372,751,708
BRAZIL	13,795,418	18,032,838
SPAIN	19,341,288	12,492,889
INDIA	5,575,391	9,051,267
GUATEMALA	16,034,892	13,503,845
PAKISTAN	18,074,422	22,500
OTHER NOT LISTED	221,867,542	127,810,151
GRAND TOTAL	683,227,833	553,665,198

SOURCE: World Trade Atlas, Mexico Edition, December 2007

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

Production

Total Mexican cotton production for marketing year (MY) 2008/09 (Aug-Jul) is forecast to rebound to 680,000 bales, up approximately 60,000 bales or 9.5 percent from last year's estimate. This is attributed to a slight increase in harvested area as a result of planters being encouraged by high international prices, which have improved since mid-2007. A primary factor underlying these increased prices is a spillover from other commodity markets. According to the Confederation of Mexican Cotton Associations (CMCA), many growers considered planting other high-priced commodities (corn, wheat, and other regional crops) for 2008. However, despite the attraction of strong wheat and corn prices, preliminary cotton planting intentions show an increase in planted area for MY 2008/09 due to a significant increase in input costs, particularly fuel and fertilizers, associated with other crops. Plus, most of the main cotton producing areas in Mexico are best-equipped to grow only cotton. The CMCA estimates that fertilizer urea and ammoniac prices have increased 92 and 70 percent, respectively, since 2006. According to the CMCA, final planted area decisions anticipate expected returns from cotton. The cotton planted area, yield, and production (estimate and forecast) by state for MY 2007/08 and MY 2008/09 are as follows:

COTTON CROP FOR STATE/REGION						
	MY2007/08 estimated			MY2008/09 forecast		
Region	**Planted Area (Has)**	**Yield (Bales/Ha)**	**Production (Bales)**	**Planted Area (Has)**	**Yield (Bales/Ha)**	**Production (Bales)**
South Sonora	2,400	7.6	17,162	10,000	6.0	60,000
North Sonora	400	5.0	2,000	1,000	5.0	5,000
Mexicali, BC	24,229	6.4	156,170	24,000	6.4	153,600
Juarez, Chih.	36,000	4.9	174,045	36,000	5.0	180,000
Delicias, Chih.	933	4.6	3,878	1,200	5.0	6,000
Ojinaga-Aldama Chih.	18,100	6.6	111,315	19,000	6.0	114,000
La Laguna Dgo-Coah.	19,500	7.6	148,535	20,000	7.5	150,000
North Tamaulipas	1,600	3.7	5,389	3,800	3.3	12,540
TOTAL	**103,162**	**6.0**	**618,494**	**115,000**	**6.0**	**681,640**

Source: Confederation of Mexican Cotton Associations

The production estimate, as well as the planted and harvested area estimates, for MY 2007/08 has been revised downward and reflect the most recent CMCA figures. CMCA stated that excess rainfall after planting and certain problems with diseases reduced the expected production in some cotton areas of Chihuahua and Tamaulipas. However, crop conditions for the rest of the cotton areas ranged from good to very good due to favorable weather and excellent growing conditions after planting.

Cotton yields around the country vary significantly. Average cotton yields for MY 2008/09 are expected to reach 6.0 bales/ha, with a range of between 3.3 and 7.5 bales per hectare. The highest yield/ha is expected in the La Laguna region, where cotton growers have adopted the use of genetically modified seed varieties. The CMCA stated that biotechnology continues to be an important tool in reducing pesticide use by more than 50 percent, as well as stimulating an increase in yields. The CMCA estimates that in MY 2008/09 approximately 70,000 hectares of cotton land will be planted with genetically modified seed varieties, compared to roughly 60,000 has that was planted in MY 2007/08. This improved seed will be planted mainly in Chihuahua, Mexicali and the La Laguna region (Coahuila and Durango states). Other factors that influenced the gradual yield increase in the last few years include improving the cultural practices, such as: narrow furrows, better prevention methods against diseases, and the investment in new combines.

SAGARPA continues to publish the estimated costs of cotton production as well as the costs per hectare for various states (see MX7035). However, this cost information has only been updated for a few states. The table of production costs is below.

Cotton Production Cost Budget for Several States & Crop Cycles (Pesos per Hectare)			
State	**2005 Spring/Summer**	**2006 Spring/Summer**	**2007 Spring/Summer**
Sonora	15,331.51	16,654.54	16,423.75
Baja California (Mexicali)	14,526.20	17,269.62	25,538.65
Coahuila (La Laguna)	19,958.46	N/A	N/A
Tamaulipas	8,413.80*	N/A	N/A

*/ Data for 2005/06 Fall/Winter crop cycle
N/A Not available
Exchange Rate as of April 14, 2008: U.S. $1.00 = 10.64 Pesos
Source: SIAP/SAGARPA

Under PROCAMPO, (the Mexican domestic agricultural support program) a flat-rate payment on cotton and other products was provided to farmers for the 2007 spring/summer crop cycle and will be repeated for the 2007/08-fall/winter crop. The GOM policy is that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately U.S. $109/ha) and 963 pesos/ha to farmers with more land (roughly U.S. $90.50/ha). The GOM has yet to announce the payment amount for the 2008 spring/summer crop cycle. Reportedly, it will be similar to what was granted during the last crop cycles.

According to the CMCA, the quality of the MY 2007/08 crop is similar to averages from recent years, especially in growth. In general, the quality of Mexican cotton is poor. There are approximately 150 gin mills in Mexico: 23 in Chihuahua; 15 in the La Laguna region; 12 in San Luis Rio Colorado, and the rest in other states. The majority of the mills are outdated and tend to damage cotton during the ginning process. In some areas (mainly in Chihuahua, Ojinaga, and the Mexicali cotton areas), Mexican growers have been investing in modern gin mills. Large textile firms continue to use Universal HVI Calibration Cotton Standards to sort the cotton by fiber length, strength, micronaire (a measure of the cotton's fineness), color grade, color Rd (reflectance), color +b (yellowness), and trash percentage. Due to only a few of the Mexican growers using such standards; domestic cotton is typically used by the smaller mills.

Consumption

Mexico's outlook is less favorable than the previous year as economic growth is expected to slow in 2008 due to an expected recession in the U.S. economy. MY 2008/09 consumption is projected to decline to 1.925 million bales as a result of sluggish demand from the Mexican textile industry, which reflects the impact of an economic slowdown and a relatively lower level of consumer purchasing power for apparel spending. Moreover, the textile industry has been under pressure from foreign suppliers; thus growth in consumption within this sector has been somewhat stagnant. Industry sources estimate this trend will likely continue in MY 2008/09. The main users of Mexican cotton are the textile industry and the oil industry. The total consumption estimate for MY 2006/07 has been revised slightly upward based on updated information from industry sources.

Despite the fact that Mexico's apparel and textile industry expanded as a result of NAFTA, it has been declining the past few years. The Mexican market share of cotton apparel peaked in 2000, and in the past seven years, Mexican shipments have been declining. This decline is almost exclusively attributed to the fact that Mexico's apparel and textile industry is losing domestic and U.S. market share to low cost production countries such as China.

Trade

Cotton imports are forecast to decrease from 1.5 million bales in MY 2007/08 to 1.4 million bales in MY 2008/09 reflecting the impact of the economic slowdown, the stagnant textile industry, and a relatively lower level of consumer purchasing power. Despite this decline, the United States should continue to be the main supplier, accounting for practically 100 percent of total cotton imports. The import estimate for MY 2006/07 has been revised downward eight percent reflecting official data from the Secretariat of Economy (SE).

Mexican cotton exports are expected to remain unchanged at 200,000 bales in MY 2008/09, due to a recent increase in international prices along with a decreased demand for cotton from the Asian countries (mainly China), which continues to displace Mexican exports to the United States. The export figures for MY 2006/07 and MY 2007/08 have been adjusted downward according to revised information from the SE and the industry, respectively.

Stocks

Due to lower than previously estimated imports in MY 2006/07, and lower production for MY 2007/08, stocks have decreased from our previous forecasts. For MY 2008/09, this trend is expected to continue as the initial forecast of cotton imports shows a decrease of nearly 100,000 bales. As a result, 2008/09 ending stocks are forecast to decline five percent to 888,000 bales.

Marketing

According to the National Cotton Council, although the market share is declining in other countries, Mexico was once again one of the largest exporters of cotton goods to the U.S. in 2007. Cotton trousers remained the largest category of imported cotton goods from Mexico and accounted for 35.5 percent of all cotton product imports from Mexico based on square meter equivalents. Knit cotton shirts were the next largest category of imports, accounting for 20.7 percent, followed by cotton hosiery (7.4 percent), and "other cotton manufacturers" (6.8 percent).

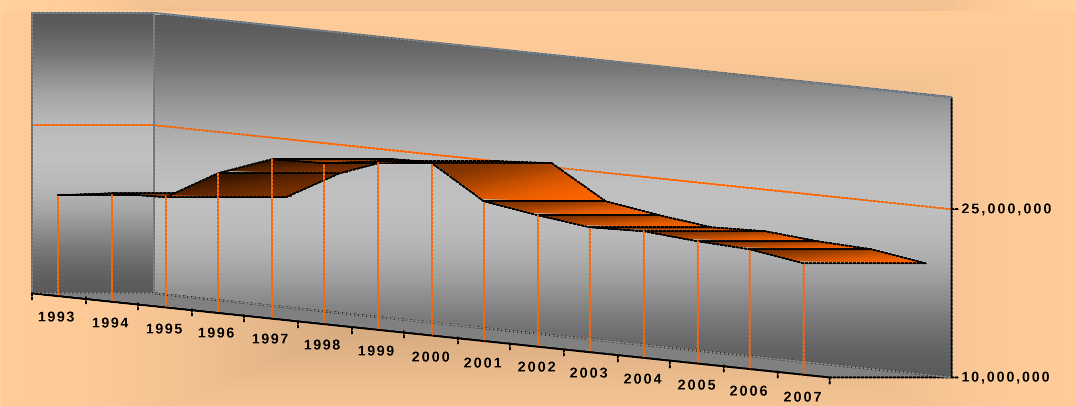
Industry consultants have reported that in order to remain the major supplier of textiles and apparel to the United States, Mexican firms should continue their efforts of shifting production from low-value-added basic garments to high-quality and technology intensive products.

Similarly, one industry source stated that faced with increased competition from other countries, Mexican apparel producers should focus more on higher fashion and brand-name products that require smaller and more flexible runs. Recently, Mexican textile industry sources agreed that they should focus their efforts on: establishing joint ventures with foreign firms, specializing in products, and creating new brands for the domestic market. They are also in favor of designing and focusing on promoting Mexican garments overseas. However, industry sources have stated that Mexico fashion is not popular with overseas buyers, but if both the apparel and textile industries can achieve this goal, then the demand for U.S. cotton could increase. In addition, the U.S. industry should continue its activities of promoting the advantages of cotton textile products.

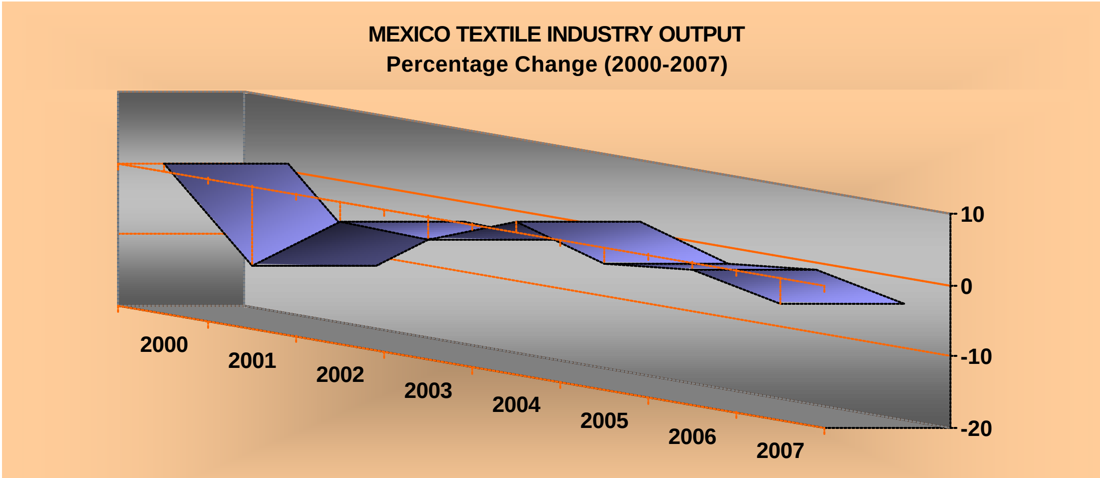
Textile Industry

In CY 2007, textile output declined for the third year in a row, with a reduction of 3.7 percent compared to 2006. Many sources state that due to sluggish domestic consumption and an increased foreign market presence in Mexico, this trend could continue for the next couple of years. According to the President of the Mexican Textile Industry Chamber (CANAITEX), the textile industry is at a critical stage due to a declining output the past couple of years. As a result, approximately 300,000 jobs have been eliminated from a total of 800,000. This trend is expected to continue in 2008 due to a slowdown in the Mexican economy. Below are two graphs that illustrate the industry output and their percentage of change:

Mexico Textile Industry Output
Textile - Garments



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Pesos (In 1993 constant prices)	18,939,	19,640,	19,702,	22,435,	24,198,	24,347,	25,033,	25,302,	22,470,	21,797,	21,068,	21,347,	20,833,	20,628,	19,880,



	2000	2001	2002	2003	2004	2005	2006	2007
% Change	1.1	-11.2	-3	-3.3	1.3	-2.4	-1	-3.6

Source: National Institute of Geography, Statistics and Computer (INEGI)

The textile sector's main problems can be summarized as follows:

- A loss of market share in the U.S.;
- Foreign competition in the domestic market;
- Rising energy costs, mainly electricity costs;
- Tighter Credit Access;
- Logistic and transportation costs to import cotton.

Industry sources report that Mexico has lost volume in the key categories of knit and woven shirts and bottoms in recent years. Together, these three categories account for over 75 percent of Mexican apparel shipments to the United States. Higher production and labor costs relative to key competitors continues to hamper the competitiveness of the Mexican apparel industry. The outlook for 2008 does not support a dramatic shift in these key factors. Moreover, the deceleration of U.S. economic growth in recent months suggests limited opportunity for reversing this downward spiral of Mexican apparel exports in MY 2008/09, which could mean that the volume of Mexican imports may decline even further.

Regarding the domestic market, industry sources have stated that six of each ten garments are supplied illegally (through contraband, stolen merchandise, and/or products manufactured without paying the proper taxes). Moreover, the formal market of clothing is highly concentrated; only nine purchasing companies represent more than 40 percent of the total clothing sold.

Industry sources have commented that energy costs are nearly as high as they are in Japan, thus making it difficult for the domestic industry to cut costs. At the same time, some industry sources have complained that "auto service" stores in Mexico return merchandise, which is not sold in their stores, back to the garment maker. This has been a huge problem for domestic production, and they are asking the GOM find a solution to this issue.

Mexico is competitive in the production of fibers as well as the cutting, assembly and export of garments. However, Mexico has not been able to produce quality fabric that is required for apparel; thus Mexico still relies heavily on imported textiles. Industry sources report that the creation of a commodity chain, which uses Mexican textiles as the main input and has the capacity to deliver a fully packaged product with more value-added services, is the key to the survival of the Mexican textile sector.

Despite the challenges that the domestic textile and apparel sectors are facing, a recent survey by Cotton Incorporate showed that Mexican consumers are among the world's most fiber conscious and check fiber content labels more often than shoppers in other countries. The proportion of Mexicans, who look at the fiber content label, is 83 percent, and over half (52 percent) "usually" check the label. Of the Mexican consumers who check fiber content, 81 percent are willing to pay more for clothes made from natural fibers, such as cotton, than for clothes made from synthetic fibers, such as polyester. Mexican consumers (82 percent) feel that cotton is the fiber best suited for today's fashions, and the majority (54 percent) agree that 100 percent natural fibers are superior to synthetic fibers or cotton-polyester blends. The *Seal of Cotton*, one of the most widely recognized trademarks in the United States, has a strong and growing presence in Mexico. It is licensed to over 170 Mexican retailers and brands, and recognized by 85 percent of the consumers — up significantly from 71 percent in 2001. The *Seal of Cotton* has supported Mexican consumer's views that they are purchasing high-quality cotton products and clearly communicates the value of cotton.